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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 21, 2011

The Arab League's Secretary General Amr Moussa said he respected a UN resolution authorizing military action in Libya following earlier comments suggested he was concerned by actions taken by Western powers. He is expected to hold an emergency meeting with permanent delegates of Arab League member countries on Tuesday to discuss the situation in the Arab world, with emphasis on the Libyan crisis. UN Secretary General Ban Ki-moon said it was vital the world speak as one on Libya.

Market Watch

The National Weather Service forecast that US heating demand this week is expected to be 12.4% below normal. Demand for heating oil this week will average 3% above normal while heating demand for natural gas will average 11.3% below normal.

The National Association of Realtors said sales of existing homes in the US fell by 9.6% in February and prices fell to the lowest level in nearly nine years. Existing home sales fell to a seasonally adjusted rate of 4.88 million, the lowest level since November. The median sales price for an existing home fell to \$156,100, the lowest level since April 2002. It is down 5.2% from the year ago median price of \$164,600 and down from the average of \$157,900 in January.

The Transportation Department reported that US highway traffic in January increased by 0.2% or 500 million miles on the year.

Goldman Sachs said increased use of oil for electricity generation in Japan due to the closure of nuclear plants will far outweigh the demand lost to lower economic activity. It said Japan would need 230,000 bpd of residual fuel oil and crude to offset lost nuclear generating capacity adding that its price forecasts may be too low.

China's imports of many major commodities fell in February as a national holiday, abundant stockpiles and increasing prices combined to discourage shipments. China's imports of iron ore in February stood at 48.8 million tons, down from a record of 69 million tons in January. Shipments of coal to china fell to 6.8 million tons, down 50% on the year. China's oil imports increased to 5.22 million bpd, up 7.8% on the year.

The yen fell further on Monday, with speculators wary of pushing it higher against the dollar as such a move could draw more coordinated yen selling intervention by the Group of Seven countries. Analysts said the first joint G7 intervention since 2000 on Friday was working and they saw the effort as primarily aimed at dampening market volatility. The Bank of Japan, the European Central Bank and Bank of Canada conducted about \$32.2 billion worth of yen selling intervention on Friday.

Meanwhile, the US, carrying out air strikes in a coalition with Britain, France, Italy and Canada and others said the campaign was working and dismissed a ceasefire announcement by the Libyan military. Allied officials said two days of strike have effectively grounded Gaddafi's air force. The UK Defense Secretary said making Libya's leader Muammar Gaddafi a target during raids by coalition forces could potentially be a possibility. France's Foreign Minister Alain Juppe said it is very likely that Muammar Gaddafi's regime would fall apart from within as airstrikes continue. He also stated that NATO is ready to support the international coalition. Libyan rebels welcome more air strikes by foreign forces against Muammar Gaddafi's army but do not want foreign ground troops to intervene in

**March
Calendar Averages**
CL – \$101.87
HO – \$3.0398
RB – \$2.9717

the war. Separately, Russia's Prime Minister Vladimir Putin likened the UN Security Council resolution supporting military action in Libya to medieval calls for crusaders.

Iran's Supreme leader Ayatollah Ali Khamenei condemned the western intervention in Libya, saying it is aimed at getting their hands on its oil.

Venezuela's Oil Minister Rafael Ramirez said there was no need for an emergency OPEC meeting despite military intervention by Western countries in Libya.

The president of Iraq's Kurdistan region called for reforms after protests against nepotism, corruption and a political stranglehold by the two main parties. Massude Barzani urged parliament for early provincial elections and the speedy creation of an integrity commission to check corruption and nepotism in many areas, including official appointments and energy contracts.

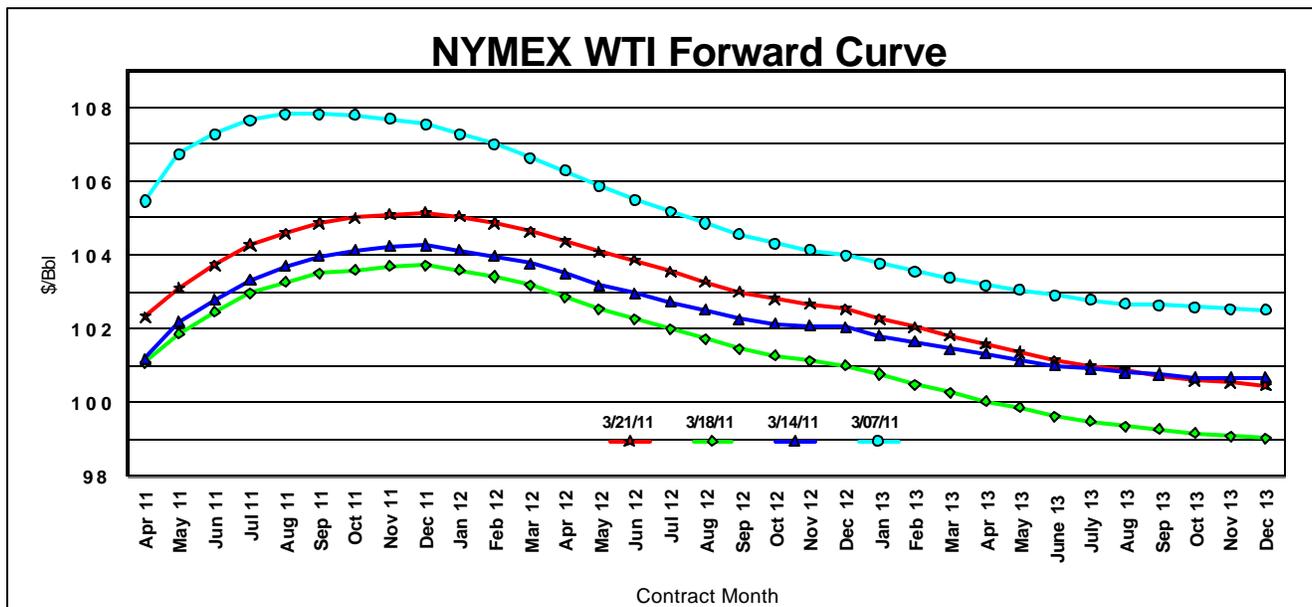
Bahrain's King bin Isa Al Khalifa said a foreign plot against his kingdom was foiled and thanked troops brought in from neighboring countries to help end increasing unrest in the country.

China Premier Wen Jiabao said he was optimistic about the outlook for the US, European and world economies. He said he was surprised by the rally in oil prices. He said unrest in the Middle East and loose monetary policies in some countries had caused the spike in energy prices.

The EIA reported that the US retail price of diesel fell by 0.1 cent/gallon to \$3.907/gallon in the week ending March 21st. The EIA also reported that the US average retail price of gasoline fell for the first time in seven weeks by 0.5 cents to \$3.562/gallon on the week.

Refinery News

Colonial Pipeline said it was freezing nominations for its main distillate line north of Collins, Mississippi for Cycle 17 as demand for space outstripped capacity. Colonial Pipeline also stated that its daily capacity between Greensboro, North Carolina and the New York Harbor would increase by 100,000 bpd due to capacity upgrades expected to be completed this summer. Colonial, which has already added about 24,000 bpd of capacity, said the expansion would increase its total capacity into the New York Harbor market by 14%. Colonial is also planning to add more than 140,000 bpd of capacity to its Southern mainlines, between Houston and Greensboro, over the next 12 to 24 months.



Buckeye Partners LP shut a 10 inch pipeline that runs between Mantua, Ohio and Coraopolis, Pennsylvania after a rupture spilled ultra low sulfur diesel fuel near Midland, PA. There was not estimate yet of how much fuel leaked from the pipeline but the pipeline carries about 2,000 barrels an hour.

BP plans to restart its fluid catalytic cracking unit 1 following a unit turnaround at its 437,080 bpd refinery in Texas City, Texas on Monday. The unit was shut on March 11th due to a malfunction. It reported flaring due to power surges on Sunday at its 437,000 bpd Texas City, Texas refinery. The units were stabilized and operations resumed. Separately, BP reported a release of hydrogen sulfide due to problems with a scrubber at its 405,000 bpd refinery in Whiting, Indiana on Saturday. BP also reported flaring due to a problem at its 265,000 bpd refinery in Carson, California on Saturday. BP shut a hydrotreater unit for unplanned maintenance.

ExxonMobil Corp reported that a compressor shutdown led to flaring and a release of material to the air at its 504,500 bpd Baton Rouge, Louisiana refinery on Friday. The company said a backup compressor was being started up to help reduce the pressure.

Valero Energy reported air emissions from a 92,000 bpd heavy oil cracker unit that was shut for maintenance at its Corpus Christi, Texas refinery on Friday. It said it would complete the maintenance as quickly as possible. Valero also stated that its hydrocracker unit at its 144,000 bpd Benicia, California refinery was restarted over the weekend and was nearing planned rates. The outage was not expected to have a material impact on production.

Valero Energy Corp's chief executive Bill Klesse said excess oil refining capacity remains in North America, Western Europe and Japan in spite of a recent spate of refinery closures. He noted the overcapacity existed before the tragic events in Japan, where an earthquake and tsunami temporarily shut 30% of the country's refineries. He said refining in the industrialized world continued to face the prospect of cuts in refining capacity.

Tesoro Corp plans to expand its Mandan refinery in North Dakota from 58,000 bpd to 68,000 bpd by the second quarter of 2012. It expects to supply the refinery with crude from the nearby Bakken Shale/Williston Basin.

A union official said a catalytic cracker and other units at Curacao's 335,000 bpd La Isla refinery were shut due to problems with steam supplies.

Operations at Venezuela's 140,000 bpd El Palito refinery was shutdown on Monday after an electrical failure. It is expected to restart later in the day.

Cosmo Oil Co extinguished a fire that had been burning at its Chiba refining complex following the earthquake on March 11th. It is expected to review a possible restart of the refinery.

China's General Administration of Customs confirmed that crude oil imports in February stood at 19.95 million metric tons or 5.22 million bpd, up 7.8% on the year. Liquefied natural gas imports in February increased to 660,517 tons, up 39% on the year.

China's commercial crude oil stocks at the end of February fell by 2% or 140,000 bpd on the month following two months of consecutive gains. Inventories of refined oil products at the end of February increased by 15% on the month. Diesel stocks increased by 28% while both gasoline and kerosene stocks increased by 1.2% month on month. China's apparent oil demand increased by 10.2% from a year earlier to 9.53 million bpd in February.

China cut its gasoline exports in February and exports this month are expected to fall further amid maintenance at a refinery and efforts to alleviate tight domestic supplies. The 200,800 bpd West Pacific Petrochemical Co has been shut down for the entire month for major scheduled maintenance. Gasoline exports fell by 27% on the month to 403,442 tons. China exported 163,260 tons of diesel in February, up 68% on the year and exported 163,380 tons of fuel, down 44% on the year.

Royal Dutch Shell shut its 800,000 ton/year ethylene cracker in Singapore following operational issues and declared force majeure on some chemical supplies.

Indian state refiners have delayed plans to shut down refineries in April amid the impact of Japan's crisis on the world oil markets and calls for Reliance to be allowed to sell domestically from its export focused plant revive. BPCL has decided to defer a planned April shutdown of units at its plants while Hindustan Petroleum is also considering delaying maintenance from April. BPCL deferred the shutdown of a hydrogen unit at its Mumbai refinery and a diesel unit at the Kochi refinery to meet local fuel demand.

Vietnam's Dung Quat oil refinery is scheduled to shut down for equipment checks starting on Wednesday. The 130,500 bpd refinery will cease all operations for between two and three weeks as part of a maintenance plan.

A subsidiary of the Nigerian Petroleum Corp issued a tender to buy 627,000 tons of gasoline in April.

Production News

US regulators approved a Royal Dutch Shell Plc plan to drill three exploratory wells in the Gulf of Mexico. The Interior Department's approval of wells in Shell's Auger field is the first time US regulators have approved a new deepwater well in the Gulf of Mexico since the Deepwater Horizon explosion and subsequent oil spill last April.

An engineer said the east Libya oil terminal of Zueitina, now back under rebel control, has not exported crude for almost two weeks and will not resume until calm returns. Engineers said basic oil infrastructure facilities at the terminal had not been damaged by the fighting.

Industry sources said Saudi Arabia has produced just under 9 million bpd so far in March but its exports have not increased and spare crude has been put into storage. Sources said it produced 8.8 million bpd to 8.9 million bpd. Saudi Arabia has previously stated that it could provide additional light crude for Europe to make up for any shortfall left by Libya.

Saudi Aramco President Khalid al-Falih said China's rising oil needs are not a burden on global supply and added that they would help promote essential investment that would increase efficiency and capacity.

A.P. Moller Maersk said its joint venture DUC produced 192,000 bpd of oil and condensate in February, down from 225,000 bpd a year earlier.

Royal Dutch Shell Plc expects its expanded oil sands project to produce 255,000 bpd in the second quarter. It said some production from its 100,000 bpd expansion is running its upgrader.

Russia's Transneft said the second stage of the East Siberia-Pacific Ocean pipeline carrying Russian crude to Asian-Pacific markets and the US may be put into service more than a year ahead of schedule by the end of 2012. The first part of the pipeline carrying 30 million metric tons of East Siberian crude a year to Skovorodino near the Chinese border was launched in 2009. It said that

once the second part of the ESPO pipeline is completed, capacity to the Pacific Coast would increase to 30 million tons a year.

Market Commentary

The oil market posted an inside trading day as it remained range bound ahead of the April contract's expiration on Tuesday. Early in the session, the market posted a high of \$103.35 as the airstrikes by the US and its allies in Libya raised concern about extended oil supply problems. The chairman of Libya's national oil company said the country's crude output may be entirely halted. The oil market however erased some of its gains after it failed to test its previous high. It traded to a low of \$101.66 before it retraced its losses and settled in a sideways trading pattern during the remainder of the session. The market settled up \$1.26 to \$102.33. The market will remain driven by news regarding increasing regional tension in the Middle East. The market is also seen supported ahead of the April contract's expiration tomorrow and the release of the weekly petroleum stock reports which are expected to show a build in crude stocks of 2 million barrels and draws in product stocks of 1.5 million and 1.9 million barrels in distillate and gasoline stocks, respectively. Technically, the crude market is seen finding support at \$101.66, \$100.14, \$96.60, \$96.22 followed by \$95.14 and \$89.77. Resistance is seen at \$103.35, \$103.66, \$105.06, \$105.92 and \$106.95.

Crude oil: April 11 59,928 -31,467 May 11 352,160 +8,286 June 11 151,839 -193 Totals 1,528,587 - 11,649 Heating oil: Apr 11 49,110 -5,183 May 11 80,867 +365 June 11 54,532 -639 Totals 305,277 - 6,422 Rbob: Apr 11 44,717 -2,529 May 11 76,976 +434 June 11 40,556 +229 Totals 268,459 -1,322.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
10166	10265	30415	30716	29884	30110
10014	10335	30336	30810	29797	30316
9660	10366	30051	31024	29226	30485
9622	10506	29658	31525	28150	30936
9514	10592	29200	33510	27730	
8977	10695	29160		27450	
				26873	

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